

Department of Local Affairs  
Performance Pay Program

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I. Background:

In 1996 the General Assembly passed legislation, which the Governor signed into law, changing how state employee compensation would be paid. Subsequently, SB00-211 directed the Department of Personnel to create a statewide performance based pay system. Accordingly, an Executive Oversight Team, chaired by Mr. Larry Trujillo, Executive Director, Department of Personnel/General Support Services and comprised of several executive branch department heads and the Director, Office of State Budgeting and Planning met with and heard from some twelve hundred employees and stakeholders over the summer of 2000 before submitting it's recommendations to Mr. Trujillo. Mr. Trujillo, in turn, submitted his plan to the Joint Budget Committee on August 31, 2000. The statewide plan requires each agency to develop a departmental implementation program for review by the State Personnel Director. The following constitutes the DOLA Performance Pay program.

II. Overview of DOLA Program

The purpose of this program is to promote excellence in state government and to better serve the citizens of Colorado. The three components of this program are: performance management, performance based pay and dispute resolution. Performance management links DOLA's mission, vision, values and goals to employee objectives while performance-based pay establishes a process that links employee's pay to meeting employee performance objectives and dispute resolution establishes a formal process for resolving differences associated with the implementation of the DOLA program. This program places more responsibility and authority on managers with the flexibility to manage under changing conditions and circumstances. The program requires much more communication between managers and employees in setting goals, developing performance plans and measuring performance results. Further, the program provides financial incentives to employees for improved performance.

It is important to recognize that less than 2.5% of state compensation to its employees is to be allocated under performance based pay (and in fact during FY03, the transition year, the actual allocation will be much closer to one percent). The larger system of base wages and salary survey will continue. Awards of 0% to approximately 10% for DOLA 'outstanding' performers

are expected to be permissible under the State's plan. The reality is that there are insufficient funds to provide awards at any where near the maximum amounts to all staff who are anticipated to be performing at the highest level. The general understanding is that the award pot will be funded by the legislature at a level equivalent to the average funding that had been provided historically for the traditional anniversary/merit raises. This is the estimated 2.2% pot level assumed in the rest of this program. Our perspective is that the intent of the legislature is to give agency management some control over roughly 2.2% of future to increase compensation to those employees who most effectively contribute to the accomplishment of the agency's goals and objectives. Variations in this compensation are to be based upon managements' evaluation of performance in such a way as to assure that all employees (except where otherwise restricted) with an 'outstanding' performance rating receive a performance award greater than the maximum increase awarded to 'highly competent' performers and likewise for 'competent' employees while 'needs improvement' performers will be ineligible for a performance award. Those performance awards will vary from employee-to-employee and year-to-year based upon annual evaluations. The salary survey will continue to serve as the base pay scale for all employees.

Therefore an award allocation mechanism is needed which provides for:

ÿÿÿ calculating awards as a share of whatever award pot is provided by the legislature, and;

ÿÿÿ a progression of award amounts within and between performance levels in order to reasonably and equitably distribute the limited award funds in accordance with the applicable State Personnel Board rules and Director's Administrative Procedures.

### III. The Time Line

The projected time line for implementation within the Department of Local Affairs is:

June, 2001: Submit DOLA Pay for Performance Program to the State Personnel Director.

July-Sept. 2001: Provide refresher training to supervisors and staff following approval.

May, 2002: Receive performance award pot appropriation via the Long Bill.

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May/June 2002: Complete final evaluations for all employees, provide results to employees and resolve issues as necessary.

July, 2002: Provide performance awards to employees as applicable.

Post July, 2002: Continue to refine performance management through ongoing training and practice.

### IV. Local Affairs' Approach:

Our intent in implementing a new system of performance management and performance based pay was to keep things simple. Accordingly, we've made modest modifications to the existing PACE rating system which supervisors and employees are familiar with to serve the new system (see attachment). In fact, our new 'standard' performance planning and evaluation form is centered around the statewide uniform core competencies of communication, interpersonal skills, customer service, accountability and job knowledge and those competencies will be considered during every employee's evaluation. We've also developed a rating system based around evaluation units which provides appropriate latitude as to

how managers and supervisors rate staff, while minimizing cross division competition for limited

We've developed a system where an evaluation and award share allocation may occur prior to the agency's knowing the size, allocations and fund types of the award pot available to it. This is necessary due to the timing of legislative decisions related to budget. Essentially, employee ratings will determine a percentage of the award pot allocation, rather than a set dollar amount. After budget figure setting and pot allocations within the department, the actual dollar amount (and percentage of salary increase) for each employee award can then be calculated.

We will use performance rating scores in a fashion which removes the incentive for raters to inflate scores to get their staff more money, and to remove the differential effect of easy and tough raters through a structured performance review process. Thus all staff performance contributions within the same work group or evaluation unit will be assessed concurrently.

We will use a distribution of performance scores and awards using a modified version of the current PACE system with a 500 point maximum. Following this rating process the scores will be converted into one of four overall ratings of: Needs Improvement, Competent, Highly Competent or Outstanding.

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V.      DOLA Implementation:

A.      In 1996, the department drafted a series of proposals for implementing performance based pay to help employees and managers to develop their thoughts.

B.      In June, 1997, DOLA established a department implementation team, consisting of representatives of various work units and occupational groups within the Department of Local Affairs. This team provided input and reaction to several concepts and proposals. It served as an informal communications channel with employees, supervisors and work units. Additional meetings were held with representatives of employee organizations to seek input, reaction and support for the project.

Among the issues under discussion were performance management systems, communication with employees, dispute resolution processes, performance pay plan (PPP) award allocation, training and program evaluation. Technical and Human Resource staff developed various systems proposals on bonus allocations, performance planning periods and evaluation units which were then presented to the implementation team and senior managers. A wide range of bonus allocation strategies were developed and reviewed. From these discussions, this plan was developed.

C.      Performance Management: The procedure for developing Individual Performance Plans brings together supervisors and subordinates in a cooperative and collaborative effort. Each major work unit was asked to identify strategic objectives consistent with the Department's current Strategic Plan for the purpose of linking these to individual employee and work group performance plans. As part of their individual performance plan, each employee will have one or more individual performance objectives linked to a strategic objective. This process will include individual planning sessions between supervisors and their subordinates. In addition, performance objectives and measures will be identified as part of the annual performance planning process. Both behavioral and objective performance measures may be used. A performance plan with a numerical performance evaluation scoring system will be established within 30 days of the beginning of the evaluation period for all employees or within 30 days of hire for a new employee. Procedures will be developed to ensure that an employee's plan is developed jointly with either his/her immediate or next

level supervisor. In all cases, supervisory staff will be provided with performance management training and all employees will have a performance plan. Employees in DOLA have been very involved in developing performance objectives and measures for their job. Each employee, working closely with their supervisor, participated in drafting proposed performance objectives and measures for their job. After review and discussion, performance objectives and measures were agreed to by the employee and supervisor for the plan. Two mock 'practice' scoring sessions involving all employees, supervisors and review teams were conducted. These exercises were used as 'practice' for supervisors, subordinates and review teams. Our performance review cycle runs from May 1, 2001 to April 30 of the following year with interim progress reviews being conducted in December of each year.

Presently, employees and supervisors begin the performance planning process with the previous year's plan and evaluation. Working together, they: determine whether management priorities have changed necessitating a change in the employees priorities; whether the employee's job has significantly changed for other reasons; revise or reaffirm the significant segments of the job to be evaluated; and discuss and agree on performance objectives and measures to be used for the plan year. If the employee and supervisor cannot agree on the appropriate performance objectives or measures to be used, the supervisor shall decide. New performance plans for all DOLA employees are expected to be finalized by no later than 30 days after the employee's performance evaluation has been finalized for the previous plan year (ie: approx. May 30).

D. Evaluation Units: For the implementation of the individual performance plans and subsequent review of employee performance scoring, the department staff will be organized into evaluation units ranging from approximately ten to forty employees each. Each evaluation unit will have a designated 'review' function which will provide a process of checks and balances and will ensure a level of internal consistency and equity among supervisors. Review function make-up and appropriate review processes will be structured to accommodate the particular needs of each evaluation unit.

Preliminary designation of evaluation units:

Executive Director's Office (to include:)

- Director, Division of Housing
- Director, Office of Emergency Management
- Director, Field Services
- Director, Community and Neighborhood Development
- Executive Assistant
- Public Information Officer

Field Services (incl. 3 fte located in OBD)

Office of Emergency Management

Division of Housing

Division of Property Taxation

Administrative Services (including Director, BAA and applicable staff)

E. Supervisor/Employee Communication: At a minimum, DOLA policy is that a six month progress review will be held with each employee and documented on the performance rating form. More frequent coaching and feedback between the supervisor and employee is encouraged. This process can occur daily, weekly or monthly or some other time period that is adequate to keep the employee timely and fully informed of their progress in meeting performance expectations. At the same time, the employee has a responsibility to keep the manager informed of their concerns or perceived problems in meeting performance expectations. Communications must be free and open. Training in coaching and feedback skills and techniques was provided earlier and will be reinforced. All supervisors will have a provision or factor in their own performance plans that measures and evaluates the effectiveness of their performance management of their staff.

F. The Reviewer Function: Perhaps the greatest change in the performance review system will involve the reviewer function. Where under the previous system, the reviewer functioned more as a ratifier of the direct supervisor's evaluation, under the proposed system, the reviewer will have a much more active role in both the performance planning and evaluation process. The role of the reviewer is a crucial link in the successful application of the evaluation process. The reviewer (either singularly or as a group) will provide the assurance that there exists in the system, both equity and consistency. Trust in the system by all employees is the eventual goal. With the exception of those staff who report directly to the Executive Director, no additional employee's rating will be the product of a single individual. Ratings for all remaining staff will be the product of supervisor and reviewer collaboration. The Department is encouraging all employees within a work unit be given the opportunity to participate in peer and customer evaluation exercises that will be presented to managers, supervisors and review teams for consideration in developing their employee evaluations. This will allow the raters to compare their evaluation with that of the employee's co-worker(s) and customers to determine consistency or to ask for further explanation if the two evaluations vary considerably.

A joint review of the employee's performance by the supervisor and reviewer resulting in an evaluation score of Needs Improvement, Competent, Highly Competent or Outstanding will occur as the first step in the evaluation process. Any employee who receives an overall rating of Needs Improvement will receive a corrective action or performance improvement plan. Procedures will be developed to ensure that all employees' performances are reviewed and rated. Supervisors failing to provide timely performance plans and evaluations will not be eligible for a PPP award, may be fined five days pay and will be subject to corrective or disciplinary action and an adverse evaluation. In the event a supervisor fails to conduct either a performance plan or evaluation, the reviewer will be responsible for doing so. Should the supervisor fail to do so, the reviewer shall prepare the employee's performance plan or evaluation as applicable. Should the reviewer fail to complete either a performance plan or evaluation, it will be the responsibility of the reviewer's supervisor to do so and said responsibility will move on up the chain of command until such time as it's completed. In the unlikely event, after proceeding in accordance with the aforementioned process, that no rating for an employee is produced that individual shall be deemed to have received a 'competent' rating until a final rating can be given. Throughout the review process, substantial weight will be given to the initial supervisors evaluation.

The following evaluation steps will be used to develop the rating:

1. Immediate supervisor completes the employee's performance evaluation using the standard evaluation instrument (this may include added dimensions such as a 360 rating, customer surveys, peer evaluations, etc.) where applicable;
2. Immediate supervisor and next level supervisor meet to review the preliminary evaluation and modify as necessary;
3. Employee performance evaluations are reviewed by the reviewer and both supervisor and reviewer signatures are needed before the rating score is finalized.
4. The final evaluation and score is then communicated to the employee through a formal process.

The department will conduct a review process to monitor the quality and consistency of performance ratings (while at the same time balancing the deference due to supervisors and appointing authorities) on a department-wide basis before final overall evaluations are provided to employees. That process may include a review of sample of individual performance evaluations for completeness, mathematical accuracy, reasonableness and such other factors which may become apparent at a later date. It may also include appropriate tests for

nondiscrimination. This time period will also be used to determine the applicable x and y values needed to establish budget compliant departmental award ranges. These, in turn, will be communicated to appointing authorities prior to 'final' performance award decisions being communicated to staff.

G. Award Calculation: The department's proposal is to have the individual performance bonus pot share calculated on the basis of their performance rating subject to the minimum and

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maximum award limits which are applicable to their performance level.

Additional Awards: In addition to the individual performance awards there may also be discretionary awards authorized by the Executive Director of the Department for activities which occur on a one-time basis, across evaluation units, or exemplary performance by an individual or evaluation unit. From the 5% portion of the bonus pot allocated to the Executive Director's discretion, award amounts might be allocated to individuals which will be added to their bonus amounts. This pot will also be used to fund any minimum performance award rounding required. The selection of individuals for special bonuses will be determined during the fiscal year by the Executive Director in consultation with division directors and major section heads. Candidates may also be submitted by division directors to the Executive Director up to April 1 and will include a thorough description of the exceptional performance evidenced and a description of performance goals.

#### VI. Performance Awards:

Performance awards will be given to deserving, permanent employees each July. Employees receiving 'Needs Improvement' performance evaluations will not be eligible for an award. Employees rated at the 'Competent' level and above are eligible for performance awards ranging from \$1 to X (where the value of x will be determined by the department after the budget allocation is received and all employee ratings have been tabulated). 'Highly Competent' performers are eligible for awards from X + \$1 to Y (where the value of y will be determined by the department after the budget allocation is received and all employee ratings have been tabulated). And finally, 'Outstanding' performers (below range maximum) will be eligible for awards ranging from Y + \$1 to Z (where Z is established by the Director, Department of Personnel/GSS annually) which may exceed the maximum of their assigned pay range.

These awards may be base building, non-base building or a combination of both up to the maximum of their assigned pay range. However, monetary awards above the job range maximum are completely discretionary (ie: can be \$0), non-base building only, must be re-earned every year and are reserved for 'outstanding' employees only. Base-building performance awards will become part of the employee's regular, base salary beginning in July, 2002. Performance awards, which are non-base building will be paid out in one lump sum to all eligible, departmental staff who are in a paid status as of July 1st. All awards are subject to

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available funding and no award will be guaranteed.

The minimum award for all 'outstanding' employees currently at the maximum of their pay ranges is set at zero because payment of those awards is at the sole discretion of the appointing authority.

The department will strive to maximize the issuance of base building awards. Exceptions to this policy may be made (for staff below the range maximum) based on one time/ special projects, consistency of performance and related bonafide compensation considerations.

Teamwork can be measured as a component of an individual's performance plan and awards (base and non-base) proportioned accordingly. In no case, may an employee be granted an award or combination of awards greater than the set performance award maximum applicable to their performance level. All non-temporary employees with a minimum of three months DOLA service (ie: hired on or before February 1st of the performance year) will be eligible for a performance award. However, said awards for those staff who have been employed less than one year may be prorated based on months of service. Performance awards (during the FY03 transition year) will be prorated to account for any interim anniversary increase which an employee received during FY 2002.

#### VII. The Performance Awards POT Allocation

In April of 2002 the first performance awards pot figure for the department will be set by the JBC and Legislature during Long Bill figure setting. First year transition funding pots are estimated to be approximately 1%. In subsequent years, that figure will be set as a percent of salary base using the recent historical ratio of Anniversary/Merit plus annualization. This is anticipated to be between 2 and 2.5%.

Following this legislative appropriation, the executive director will split the pot into a discretionary share and a proportional share. The latter will be allocated to evaluation units proportional to the permanent employee payroll of the unit.

The discretionary pot, initially established at 5% of the awards pot (or approximately \$5000 for FY03) will be allocated by the Executive Director to evaluation units and/or individuals based on his/her evaluation of group performance and special initiatives. The amounts so awarded can be added to the evaluation unit pot for distribution on the basis of the individual performance rating or distributed directly to individuals. This pot may also be used to 'round-up' any awards as appropriate.

The proportional pot is allocated on the basis of the performance scores, which have been used to calculate the actual individual share of the performance bonus allocation to evaluation units as described above. To this is added any individual or group bonuses that may have been awarded. Under advice from evaluation unit managers, the Budget Officer and Human Resources Director will allocate the total performance awards between base and non base components within the constraints of job range maximums, overall performance ratings and budgetary rules.

The final performance award is communicated to the evaluation reviewer, supervisor and employee by mid-July and input into the payroll system for the end of July paycheck. Award payments will follow in accordance with established Director's Procedures and Personnel Board Policy and Rules.

#### VIII. Non-Monetary Awards:

The Department of Local Affairs does not have a formal, non-monetary award policy. However, the department recognizes the value of non-monetary awards and will further evaluate this option in the coming year.

#### IX. Ongoing Processes:

A. Training: As we move into the new system we need to continue to provide training to managers, reviewers, direct supervisors, and employees. Our basic tactic is to learn by doing the various parts of the process in practice and interim rating exercises. To this end, we will: be scheduling and conducting 'refresher' training for all staff, supervisors and managers in the next several months; and further assisting division directors and their senior staff with the

application of a related spreadsheet tool to analyze employee performance scores and review the effects to various scores on individual employee performance awards.

B. Communication: The department will communicate its approved Pay for Performance Program to employees by posting the plan on the Intranet, through the use of small group meetings, articles in the newsletter and new employee orientation sessions.

C. Dispute Resolution Process: All employees shall be provided an opportunity to have the following disputable matters (ie: their performance plan (or lack thereof), their final performance rating (or lack of), the application of the agency's performance pay program to their individual plan/final evaluation and full payment of any award granted reviewed within an open and impartial departmental process which shall allow the parties an opportunity to have issues reviewed objectively. This will occur through an alternative dispute resolution process. Any employee requesting such a review under the alternative dispute resolution process shall:

1. Submit their request in writing within three working days of notification to the designated 'reviewer' for further discussion and reconsideration. The intent of this process shall be to discuss all related issues fully within a non-adversarial setting and with due regard for the continued working relationship between the two parties; the reviewer will provide a written response to the employee within five working days following the conclusion of the meeting. The reviewer may not unilaterally modify either the amount or the composition of the award. Where the Division Director acts as the reviewer, the Human Resources Director (or designee) will serve in an advisory role.

2. Following receipt of the written response from the reviewer, when the employee chooses to advance the discussion, s/he must advise the designated reviewer above of that decision in writing, within three working days, and request review by a 'second level' review panel. This review panel will be comprised of three members. One of which will be an additional Division Director (from within DOLA, but outside the employee's division), the second will be the Deputy Director (or designee) and the third will be the Human Resources Director. The written decision of the DOLA panel will be final and binding on all parties except that the employee may request an external review under very limited circumstances as described below.

No party has an absolute right to legal representation but they may have an advisor present at all such face-to-face meetings. However, the parties are expected to represent and speak for themselves and the discussion should be between the employee, the supervisor and the reviewer. The discussion shall be confined to those issues originally presented in writing. The decision maker(s) are limited to addressing facts surrounding the current action and shall not substitute their judgement for that of the rater but may instruct raters to follow the agency plan, correct errors, reconsider a performance rating or plan or take other appropriate action. They cannot render decisions which would alter the agency's performance pay plan. At the conclusion of the internal review process, the employee will be given written notice as to the specifics of the external review process. The employee may then request review by the State Personnel Director -- but only regarding matters relating to either the application of the agency's program to the individual's plan or final rating or the full payment of an award. Such a request must be made in writing within five working days of the agency's final decision and must include a copy of the original issues and the final decision.





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